

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** March 2, 2007

**Bill Number:** H.B. 3438

**Author:** Crawford

**Committee Requesting Impact:** House Ways & Means Committee

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### Bill Summary

A bill to amend Section 12-6-510, of the Code of Laws of South Carolina, 1976, relating to the rates and income brackets applicable for individuals, estates, and trusts for purposes of the South Carolina Income Tax Act, so as to reduce the top marginal tax rate from seven percent to 6.5 percent and to update the brackets to reflect past inflation adjustments, to amend Section 12-6-520, relating to annual inflation adjustments to state individual income tax brackets, so as to delete the provision limiting the inflation adjustment to one-half of the actual inflation rate and the overall four percent limit on the total inflation adjustment, and to delete redundant language, and to amend Section 12-21-620, relating to the rates of the license tax on tobacco products, so as to increase the tax on cigarettes from 0.35 cents for each cigarette to 5.35 cents on each cigarette.

### REVENUE IMPACT <sup>1/</sup>

This bill would reduce state General Fund revenue by an estimated \$5,775,000 in FY2007-08.

### Explanation

Section 1 of this bill would amend Section 12-6-510(A) to reduce the top marginal individual income tax rate from 7.0% to 6.5% imposed on the taxable income of individuals, estates, and trusts, for taxable years beginning after 2006. Based upon the BEA's individual income tax estimate of \$3,401,273,503 in FY2007-08 made on February 15, 2007, reducing the top marginal individual income tax rate from 7.0% to 6.5% in tax year 2007 would require the use of \$242,948,000 of recurring funds in FY2007-08. Section 2 of this bill would amend Section 12-6-520 by removing language that allows for the cumulative adjustment of the state individual income tax brackets each December 15<sup>th</sup> by one-half of the overall rate of inflation pursuant to Internal Revenue Code (IRS) Section (1)(f). The state's individual income tax brackets would then be adjusted by the actual increase in the rate of inflation as measured by the Consumer Price Index for All Urban Consumers pursuant to IRS Code Section (1)(f)(4),(5). This bill also removes language that limits the overall rate of change in the individual income tax brackets to four percent a year. These changes would first apply to income tax brackets for taxable year 2007. Based upon data supplied by the Department of Revenue and using an estimated annual growth rate of income tax revenue of 5.83%, fully indexing the state's individual income tax brackets for inflation would reduce general fund individual income tax revenue by an estimated \$10,800,000 in FY2007-08. Section 3 of this bill would amend Section 12-21-620 to allow an additional 5.35 cents to be levied on each cigarette made of tobacco or any substitute for tobacco pursuant to Section 12-21-620(1). An additional 5.35 cents on each cigarette equates to a 100-cent surcharge on each pack of 20 cigarettes, raising the state excise tax to 107 cents per pack of 20 cigarettes. The higher surcharge is expected to generate an estimated \$247,973,000 of business license tax revenue in FY2007-08. The net effect of combining Sections 1, 2, and 3 of this bill would be a reduction of General Fund revenue by an estimated \$5,775,000 in FY2007-08. This act takes effect upon approval by the Governor.

/s/ WILLIAM C. GILLESPIE, PH.D.

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<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.